

An association, formed to promote and conserve the best interests and true spirit of a game, which has been held to be exempt from Federal income tax under section 501(c)(6) of the Internal Revenue Code of 1954, is not subject to the unrelated business income tax imposed by section 511 of the Code on income derived from the operation of championship tournaments, the grant of radio and television broadcasting rights, and the sale of publications relating to the rules of the game.

Advice has been requested whether an organization exempt from Federal income tax under section 501(c)(6) of the Internal Revenue Code of 1954 will be subject to the unrelated business income tax imposed by section 511 of the Code on income derived from the operation of championship tournaments, the grant of radio and television rights, etc.

The organization in the instant case was formed for the purpose of promoting and conserving the best interests and true spirit of a game as embodied in its traditions. Its membership is composed of regularly organized clubs throughout the United States. The organization is empowered to prescribe and enforce the rules and tests governing amateur standing and the rules for the playing of the game, and to hold each year championship tournaments and such other events as may from time to time be arranged. It acts as an authoritative national body in the arbitration of controversies and in the final determination of all questions which may arise relating to the game in this country. In addition to dues which it receives from its membership, the organization derives its income from the championship tournaments which it sponsors, the grant of radio and television broadcasting rights, and from the sale of booklets on the rules of the game. The income derived from the grant of radio and television broadcasting rights is relatively insignificant in amount.

Section 511 of the Internal Revenue Code of 1954 imposes a tax on the unrelated business taxable income of certain organizations exempt from tax under section 501(c) of the Code. The term 'unrelated business taxable income' as defined in section 512 of the Code means, with certain exceptions, additions, and limitations, the gross income derived by any organization from any unrelated trade or business regularly carried on by it, less allowable deductions directly connected with the carrying on of such trade or business. Section 513 of the Code defines the term 'unrelated trade or business,' in the case of any organization subject to the tax imposed by section 511 of the Code, as any trade or business the conduct of which is not substantially related (aside from the need of such organization for income of funds or the use it makes of the profits derived) to the exercise or performance by such organization of the functions constituting the basis for its exemption under section 501 of the Code.

Under section 513 of the Code and section 1.513-1 of the Income Tax Regulations, a trade or business regularly carried on is not considered to be substantially related to the activities for which an organization is granted exemption if the income therefrom is disproportionate in amount when considered in connection with the size and extent of the tax-exempt activities, or if its primary purpose is the production of income, or if it is operated in the same manner as a commercial business.

Where an organization is engaged in activities which are substantially related to the carrying out of the purposes for which the organization was granted exemption, the income derived therefrom should not be taxed as unrelated business income. The activities performed by the organization in the instant case, the sponsorship of championship tournaments, the sale of publications relating to rules, etc., are considered to be a means whereby the primary purpose of the organization is achieved. They are directly related to the purpose for which the organization was granted exemption. The grant of radio and television rights is considered to be incidental to the purposes for which the organization was granted exemption and the income derived therefrom is not disproportionate in amount when compared with the size and extent of its tax-exempt activities.

In view of the foregoing, it is held that income derived from the operation of championship tournaments, the sale of publications relating to rules, etc., and the grant of radio and television broadcasting rights by an association formed to promote and conserve the best interests of a game and which has been held to be exempt from Federal income tax under section 501(c)(6) of the Code, is considered not to be subject to the unrelated business income tax imposed by section 511 of the Code.